

AR44

Reichhold Chemicals
(Canada) Limited
Annual Report 1971
Rapport Annuel





The inset at left shows a variety of colour chip pigments. This is a comparatively new process, a system of making small hard colour chips from pigment and resins. These are bonded together by a process using high temperature and extreme pressure.

Many different types of pigment and resins can be used but each combination requires its own manufacturing procedure.

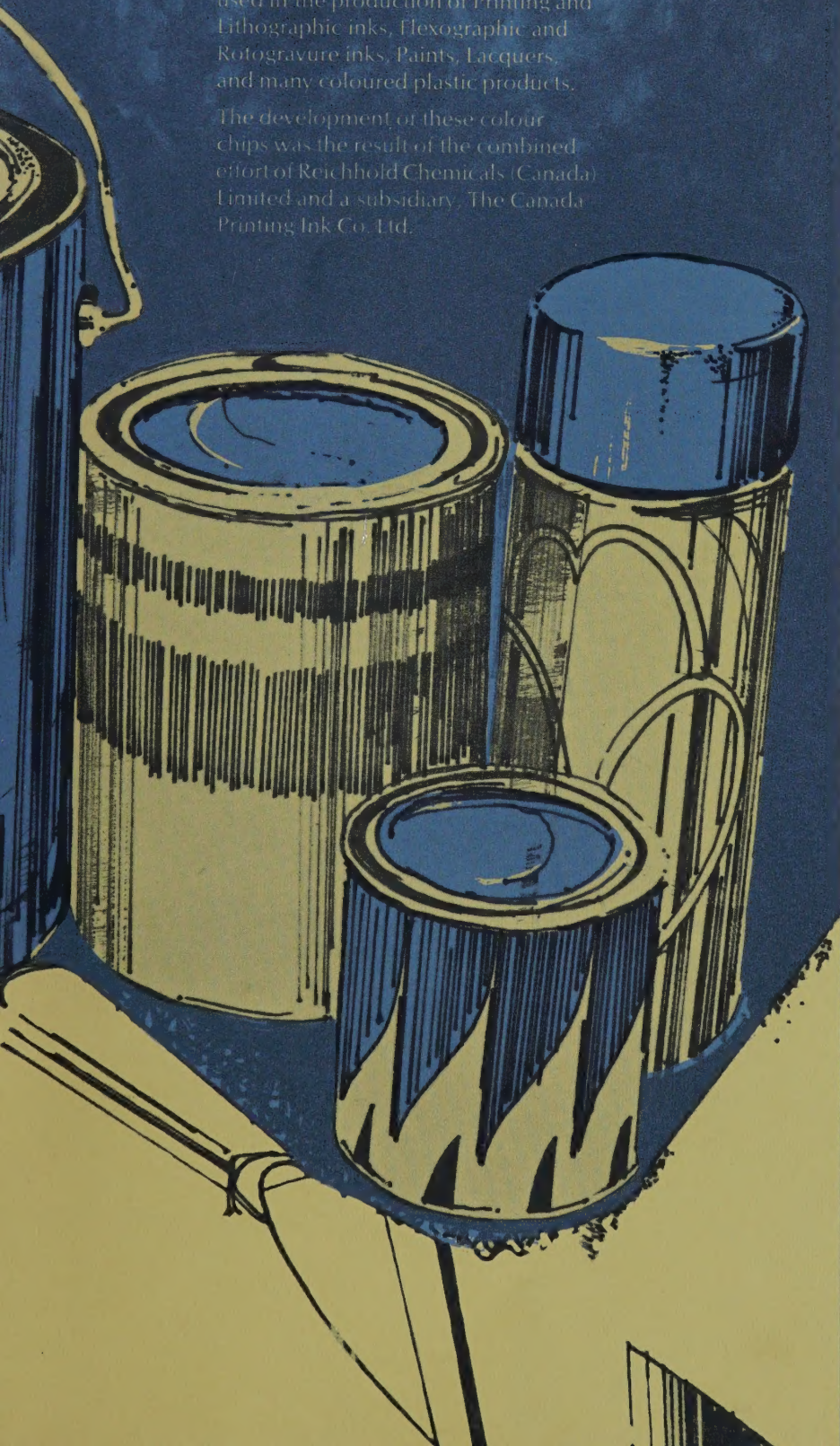
These resin bonded colour chips are used in the production of Printing and Lithographic inks, Flexographic and Rotogravure inks, Paints, Lacquers, and many coloured plastic products.

The development of these colour chips was the result of the combined effort of Reichhold Chemicals (Canada) Limited and a subsidiary, The Canada Printing Ink Co. Ltd.

There is every indication that 1972 will be an excellent year. This opinion is based upon facts within the company and the general economic conditions in Canada.

George L. Hagen

George L. Hagen,
President.





The natural grain and colour of wood is enhanced and its beauty perpetuated by careful selection of Reichhold polymers for durable finishes. Reichhold's technologists can provide Beckacite and Beckosols for industrial lacquers; Beckamines for catalized baking finishes or Urotuf varnishes for the paint manufacturer to meet any requirements in speed of dry, toughness and durability.

à nos actionnaires

En terme de ventes et de profits, l'année 1971 fut la meilleure depuis la fondation de la Compagnie. Par suite d'un revirement sensationnel, les profits furent d'environ 3½ fois ceux de 1970 et les ventes augmentèrent de 11.2%. Cette réussite est particulièrement importante si on la considère à la lumière de l'économie générale du pays au cours de l'an dernier.

Toutes les divisions de la Compagnie ont connu des augmentations de profits et la plupart des groupes importants de profits ont montré des améliorations et dans les ventes et dans les profits. Ceux qui accusent les plus gros accroissements sont les enduits de surface, les adhésifs, les arts graphiques (encre et matériaux d'imprimerie), le formaldéhyde et les recouvrements décoratifs en papier. Le tonnage des produits augmenta de 15.8% de sorte que 186 millions de livres ont été expédiées durant 1971.



Les raisons de cette amélioration en 1971 en comparaison de 1970 sont nombreuses. L'effort dévoué de nos employés, hommes et femmes, nous a permis de réaliser un programme efficace d'économie sur les frais qui s'est traduit par des dépenses de fabrication moins élevées et des économies marquées sur la distribution et l'expédition. De nouveaux produits, en plus de ventes bien planifiées et enthousiastes et un programme de service auprès des clients, nous ont permis d'améliorer notre situation sur le marché quant à un certain nombre de groupes de produits.

Comme 1972 laisse prévoir une économie généralement plus forte, la demande pour nos produits augmentera. Nous prévoyons qu'en 1972 les produits accuseront une augmentation substantielle par rapport aux résultats obtenus en 1971. Durant l'année, une autre augmentation de la capacité productive sera faite par l'entremise de placement en équipement pour les usines actuelles. Il est prévu que ces placements résulteront en une amélioration continue des prix de revient à la fabrication.

En janvier, un nouvel aménagement de production a commencé à produire le papier de recouvrement décoratif en polyester "Super Astroloy". Ce produit est fourni en fini de couleur inaltérable et en similibois et s'emploie surtout pour couvrir les planches en aggloméré avec une surface extrêmement durable. Des utilisations typiques de ce fini très attrayant sur le bois comprennent les placards de cuisine, le lambrissage et articles d'ameublement. Cet assortiment de produits s'ajoute favorablement à notre papier de recouvrement à base de résine phénolique qui est déjà bien établi sur le marché.

Au cours des cinq dernières années, nous avons atteint une augmentation des ventes d'environ 100%, et, en 1971, une amélioration des profits. Nous faisons des plans pour atteindre une augmentation très substantielle des ventes au cours des cinq prochaines années. Cependant, une

grande partie des efforts de planification est consacrée à l'amélioration des profits. Nous espérons que les profits seront compatibles avec nos objectifs d'ici un an ou deux, et que nous pourrons aussi réaliser des augmentations satisfaisantes de ventes. En supposant une amélioration de l'économie générale au Canada, les perspectives d'avenir dans l'expansion de la Compagnie sont encourageantes.

*Tout laisse
prévoir que
1972 sera une
excellente année.
Cette opinion
est basée sur
des faits connus
par la Compagnie
et les conditions
générales de
l'économie au
Canada.*



George L. Hagen,
Président.

consolidated statement of earnings and retained earnings

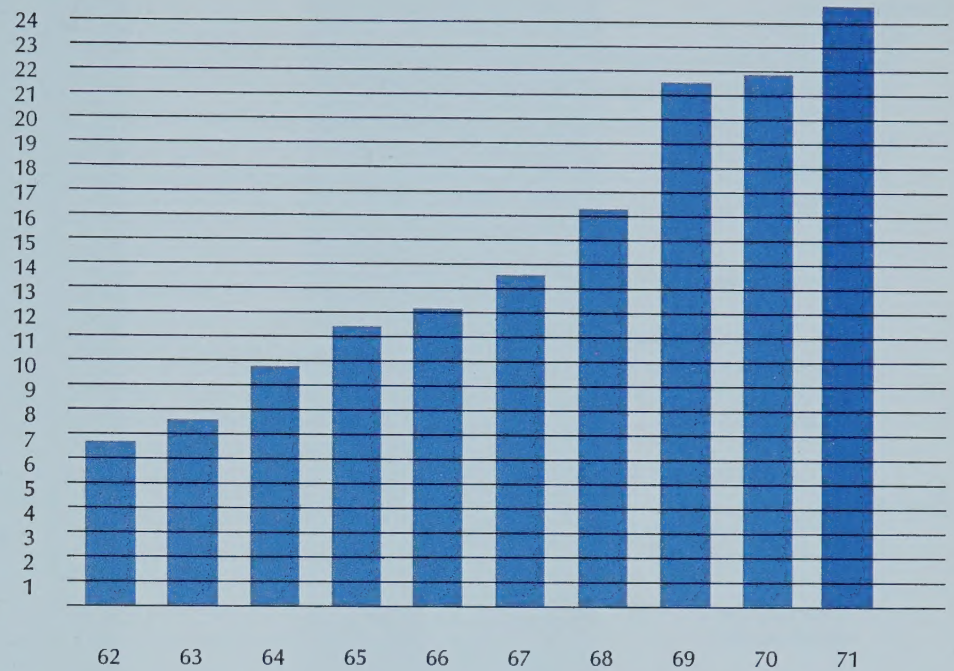
Year ended December 31, 1971 with comparative figures for 1970

	1971	1970
Net sales	\$24,204,914	\$21,761,954
Cost of sales	18,318,732	16,660,110
Gross profit	5,886,182	5,101,844
Selling, general and administrative expenses	4,477,505	4,478,377
Net operating profit	1,408,677	623,467
Other expenses (income):		
Interest on long term debt (note 3)	340,000	340,000
Other interest	58,787	43,353
Loss on disposal of fixed assets	5,452	11,184
Sundry — net	(41,920)	(98,381)
	362,319	296,156
Earnings before income taxes	1,046,358	327,311
Income taxes:		
Current	512,320	107,903
Deferred	21,700	74,397
	534,020	182,300
Net earnings	512,338	145,011
Retained earnings, beginning of year	2,762,232	2,732,715
	3,274,570	2,877,726
Deduct dividends	115,494	115,494
Retained earnings, end of year (note 3)	\$ 3,159,076	\$ 2,762,232
Earnings per share	\$ 1.06	\$.30
(Fully diluted earnings per share for 1971 \$.96 — note 4)		
The above statement of earnings includes the following charges:		
Depreciation	\$ 538,457	\$ 504,448
Amortization of debt discount and financing expense and deferred charges	28,563	20,382
Amortization of goodwill (note 1)	12,357	—
Directors' and Senior Officers' Remuneration	154,400	154,600

See accompanying notes to consolidated financial statements.

10 years of sales growth

(millions of dollars)



our year at a glance

	1971	1970
net sales	24,204,914	21,761,954
net earnings	512,338	145,011
earnings per common share*	1.06	.30
book value per common share*	10.21	9.38

*See note at foot of 10 Year Financial Review on page 17.

consolidated balance sheet

Year ended December 31, 1971 with comparative figures for 1970

Assets**Current Assets:**

	1971	1970
Cash	\$ 191,532	\$ 77,421
Short term notes receivable	1,100,000	—
Marketable securities, at cost (quoted value \$20,625; 1970 — \$18,656)	25,000	25,000
Accounts receivable:		
Trade	3,849,201	3,931,366
Other	280,332	485,481
	4,129,533	4,416,847
Less allowance for doubtful accounts	144,521	293,838
Net receivables	3,985,012	4,123,009
Inventories, at the lower of cost and net realizable value	3,440,319	3,391,513
Income taxes recoverable	—	73,334
Prepaid expenses	96,268	173,548

Total current assets	8,838,131	7,863,825
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Fixed assets:

Buildings and equipment at cost	10,143,539	9,445,097
Less accumulated depreciation	5,748,212	5,222,945

	4,395,327	4,222,152
Land at cost	129,018	178,800

Net Fixed Assets	4,524,345	4,400,952

Other assets, at cost less amortization:

Deferred development costs and other items	108,590	42,764
Unamortized debt discount and financing expense	165,371	174,647
Goodwill, being the excess of cost over recorded equity of a subsidiary at date of acquisition (note 1)	152,424	164,781

Total other assets	426,385	382,192

	\$13,788,861	\$12,646,969

See accompanying notes to consolidated financial statements.

Liabilities and shareholders' equity

Current liabilities:

	1971	1970
Bank advances, secured (note 2)	\$ 962,000	\$ 798,989
Accounts payable and accrued expenses	2,513,423	2,372,991
Due to associated company, Reichhold Chemicals Inc.	190,918	177,068
Income taxes payable	417,584	—
Total current liabilities	4,083,925	3,349,048
8½ % sinking fund debentures, Series A (note 3)	4,000,000	4,000,000
Deferred income taxes	758,200	736,500
Minority shareholders' interest in subsidiary company	31,140	46,140

Shareholders' equity:

Capital stock (note 4):

Common shares without nominal or par value

Authorized 2,287,500 shares; issued 481,224 shares

Contributed surplus

Retained earnings (note 3)

Total shareholders' equity

Commitments (note 5)

\$13,788,861 \$12,646,969

On behalf of the Board
D. G. McNabb, Director, G. L. Hagen, Director.

Auditors' Report to the shareholders

We have examined the consolidated balance sheet of Reichhold Chemicals (Canada) Limited and subsidiaries as of December 31, 1971 and the consolidated statements of earnings and retained earnings, contributed surplus, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change to writing off goodwill as described in note 1 to the consolidated financial statements were applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants,
Toronto, Ontario, February 17, 1972.

Reichhold Paint Tests

middle left

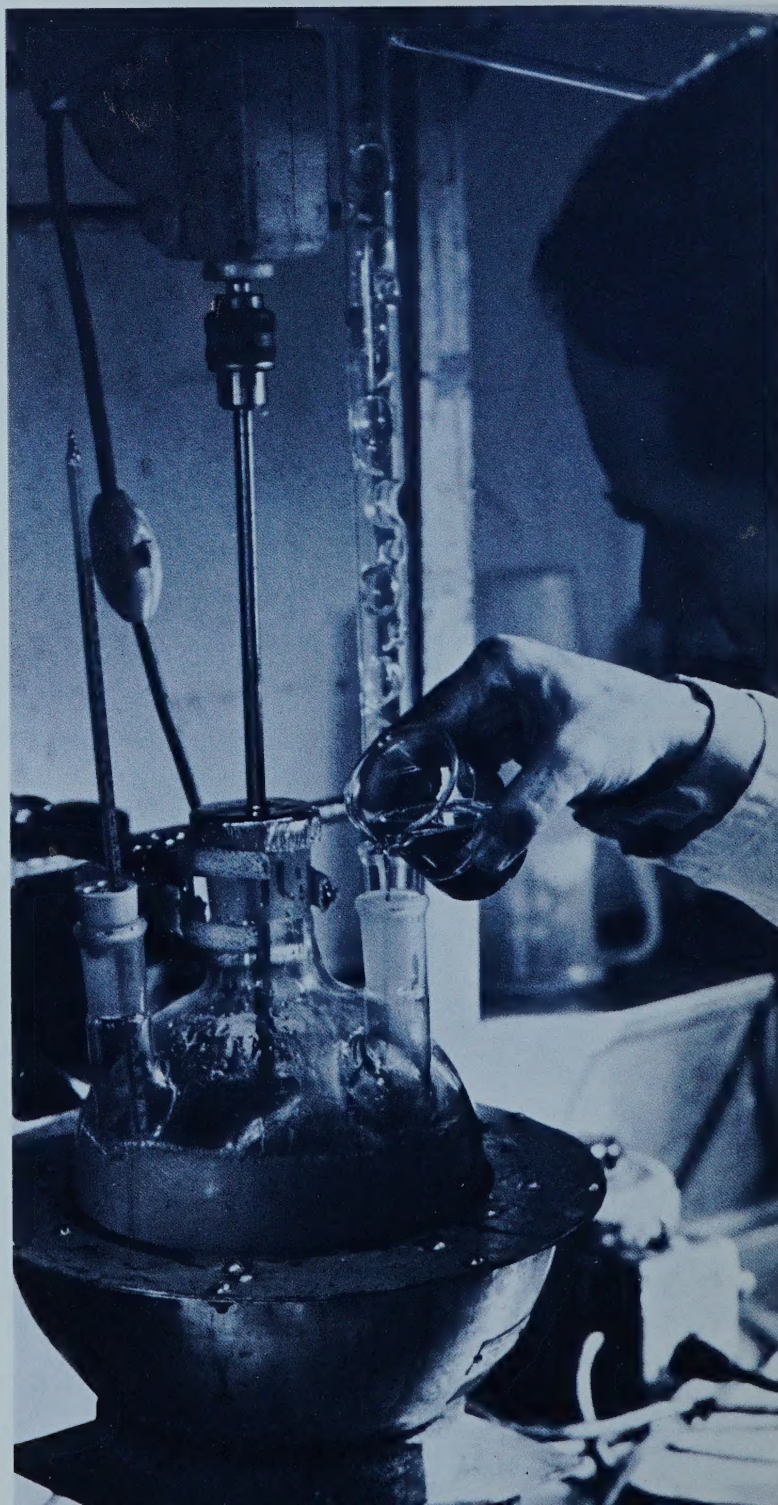
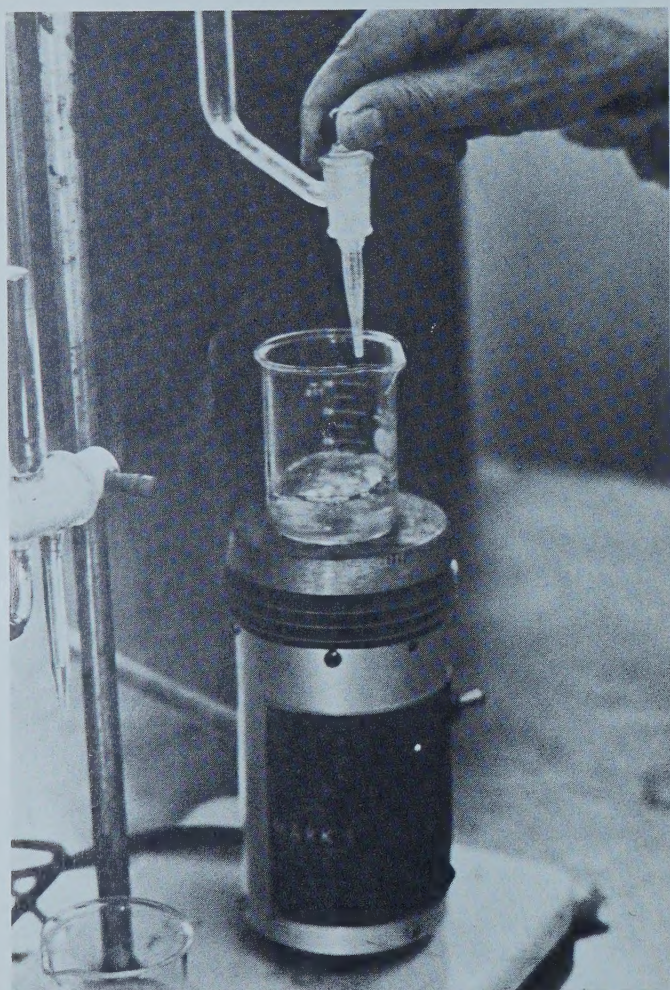
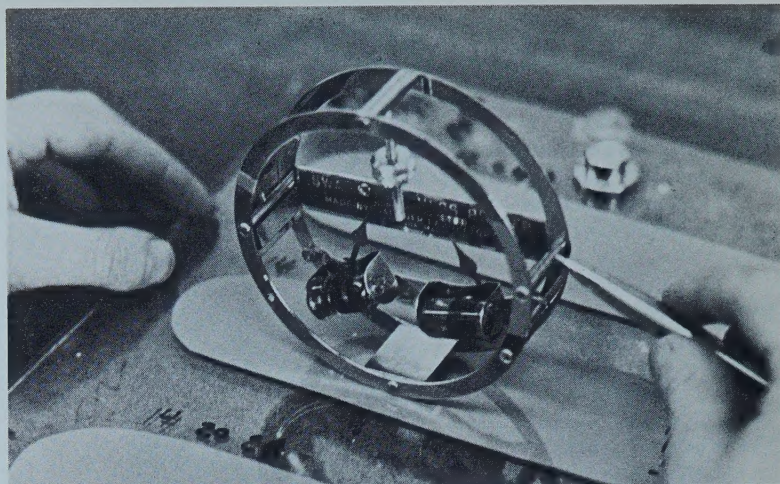
Testing acidity of a resin.

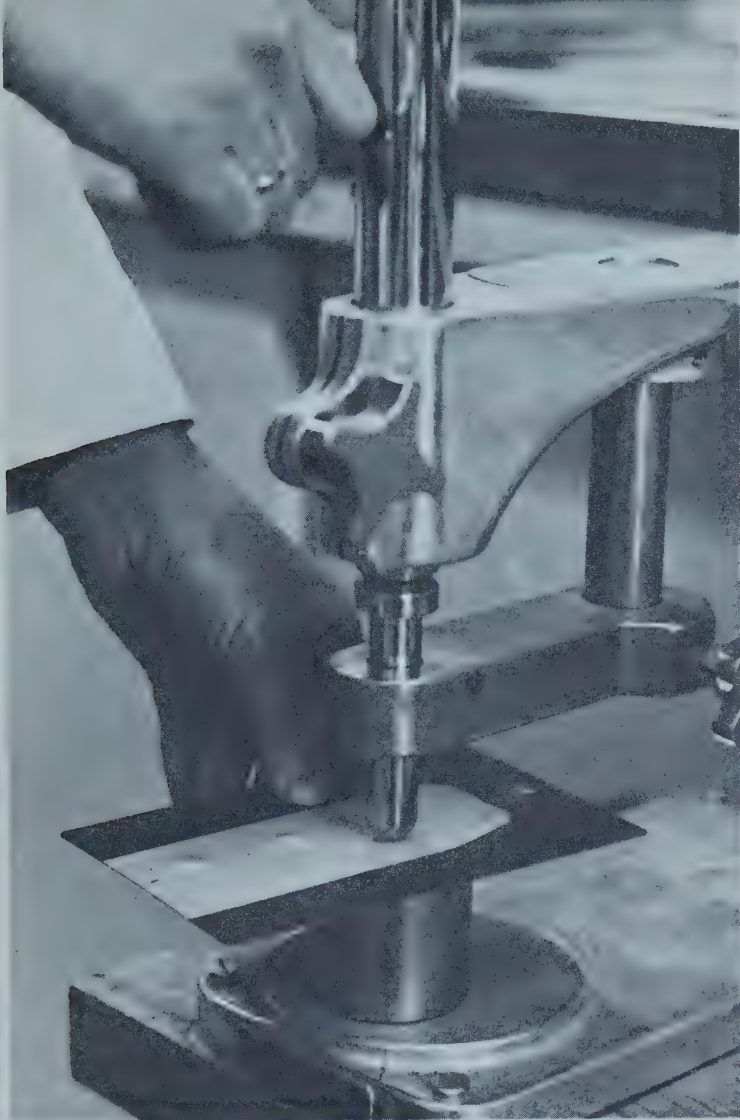
top right

Sward Hardness Rocker — Measures surface hardness of a dried film by rocking back and forth. If the film is soft, it will slow the rocker down.

bottom right

Cooking a resin in the laboratory.



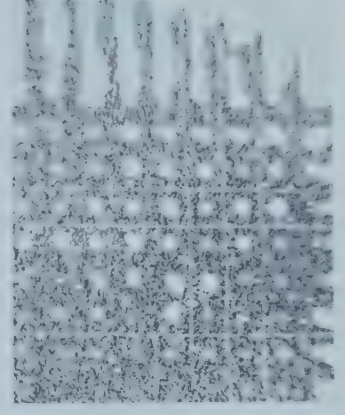
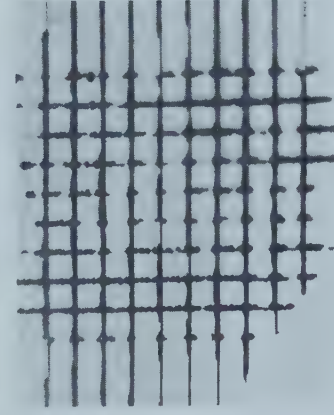
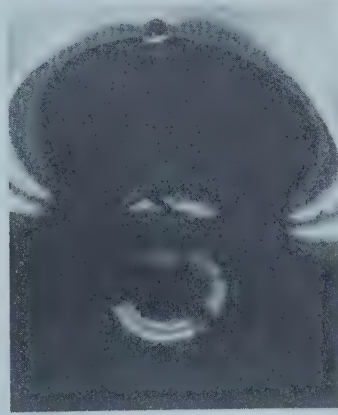
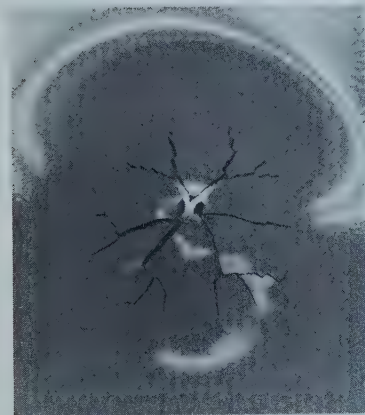
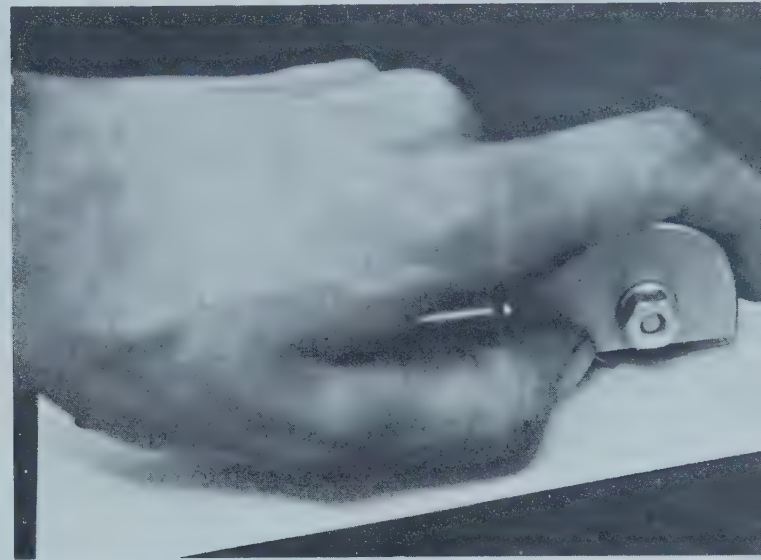


top left
Impact Tester — A bullet shaped weight is rested on the **underside** of a painted panel. Another weight is dropped from above, hitting the bullet shaped weight. This sudden impact deforms the paint film. A flexible film will withstand greater impact than a non-flexible film.

bottom left
A film which has failed the impact test.
A film which has passed the impact test.

middle right
Cross Hatch Adhesion Tester — The instrument is drawn over dried film twice at right angles, leaving a series of knife cuts in a checkered pattern. A strip of cello-tape is pressed firmly over the cross-hatch area and is then removed quickly. The amount of film left behind on the substrate is a direct indication of adhesion to that substrate.

bottom right
A film with excellent adhesion.
A film with poor adhesion.



consolidated statement of contributed surplus

Year ended December 31, 1971 with comparative figures for 1970

Balance beginning of year	
Add Area Development Incentives Act grant	
Balance end of year	

1971
\$ 1,432,233
3,471
<u>\$ 1,435,704</u>

1970
\$ 1,425,184
7,049
<u>\$ 1,432,233</u>

See accompanying notes to consolidated financial statements.

consolidated statement of source and application of funds

Year ended December 31, 1971 with comparative figures for 1970

Funds provided:

	1971	1970
Net earnings	\$ 512,338	\$ 145,011
Add charges not requiring cash expenditure:		
Depreciation and amortization	579,377	524,830
Loss on disposals of fixed assets	14,993	11,184
Deferred income taxes	21,700	74,397
Funds provided from operations	1,128,408	755,422
Area Development Incentives Act grant	3,471	31,049
Total funds provided	1,131,879	786,471
Applied as follows:		
Additions to plant and equipment (net of proceeds on disposals) ...	676,843	741,727
Increase in deferred costs	85,113	—
Dividends	115,494	115,494
Debt discount and financing expense and deferred development costs	—	68,073
Reduction in minority shareholders' interest in subsidiary company .	15,000	—
Total funds applied	892,450	925,294
Increase (decrease) in working capital	\$ 239,429	\$ (138,823)

See accompanying notes to consolidated financial statements.

distribution of sales dollars

(dollars per \$1,000 sales)

Raw Material & Container Costs	607
Payroll Costs	159
Services & Other Expenses	129
Freight	39
Depreciation	22
Federal & Provincial Income Taxes ...	22
Net Income Retained	17
Cash Dividends Paid	5
	\$1,000



dollar sales product mix

34%	29%	17%	20%
Other	Resins for	Plastics and	Resins for
Decorative	Paint,	Molding	Forest
Overlays,	Floorwax	Compounds	Products
Specialty	Surface	for Electrical	Plywood,
Industrial	Coatings.	Appliances,	Particle
Resins,		Transportation,	Board,
Adhesives,		Recreation,	Paper.
Chemicals,		Industrial,	
Oils,		Decorative.	
Printing			
Inks, and			
Supplies.			



notes to consolidated financial statements

December 31, 1971

1. Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiaries. All material inter-company items and transactions have been eliminated. Commencing April 1, 1971, goodwill, being the excess of cost over recorded equity of a subsidiary at date of acquisition is being written off to earnings over a ten year period. For the current year, the charge to earnings amounted to \$12,357.

2. Bank Advances

The bank advances are secured by a general assignment of accounts receivable.

3. 8½ % Sinking Fund Debentures, Series A due November 1, 1989

These debentures are secured by a first floating charge on the undertaking and all the property and assets of the company and may be prepaid at the holders' option on November 1, 1979. The company is required to establish a sinking fund sufficient to retire, in each of the years 1975 to 1979 inclusive,

\$220,000 of the debentures and thereafter is to make equal annual reductions to November 1, 1988 of the principal amount outstanding to \$800,000. The debentures will be redeemable at the option of the company, after November 1, 1974, at a premium of 6.25% reducing to par in the year of maturity.

The trust deed securing the debentures contains certain provisions restricting the payment of dividends. At December 31, 1971 \$464,300 of consolidated retained earnings was free of such restrictions.

4. Capital stock

Under the terms of issue of the 8½ % sinking fund debentures, Series A, 100,000 shares are reserved for exercise of share purchase warrants issued to holders of the Series A debentures, exercisable on or before November 1, 1979 at \$12 per share. The exercise of these warrants would have had a dilutive effect on earnings per share of 10¢ per share.

5. Commitments

Under the companies' pension plans the unfunded liability for past service benefits was calculated as at September 1, 1970 as \$77,481. This amount is being satisfied by the payment of and charge to the accounts of the companies in the amount of \$6,265 annually.

A subsidiary leases certain properties for annual rentals aggregating \$53,700 under long term leases extending to various dates from 1976 to 1979.

10 year financial review

(in \$'000 except per share items)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Net sales	\$24,203	\$21,762	\$21,202	\$16,108	\$13,286	\$12,000	\$11,231	\$9,713	\$7,559	\$6,684
Profit before income taxes and special items	1,046	327	319	631	886	677	908	895	632	355
Special profit (loss) items ...	—	—	—	—	—	—	(25)	—	(65)	110
Net profit after income taxes	512	145	217	322	451	368	425	444	250	247
Expenditures on fixed assets .	677	742	979	392	658	1,217	868	675	481	154
Provision for depreciation and amortization	579	525	632	603	586	479	418	329	285	231
Fixed assets at net book value	4,524	4,401	4,175	3,824	3,909	3,842	3,114	2,664	2,354	2,257
Net earnings per common share*	\$ 1.06	\$.30	\$.45	\$.67	\$.99	\$.80	\$.93	\$.97	\$.52	\$.52
Dividends paid per common share	\$.24	\$.24	\$.24	\$.21	\$.20	\$.192	\$.167	\$.15	\$.10	\$.05
Book value per common share*	\$ 10.21	\$ 9.38	\$ 9.31	\$ 8.85	\$ 8.25	\$ 7.48	\$ 6.87	\$ 6.18	\$ 5.36	\$ 4.93

*Note

Calculation of net earnings per common share is based on the weighted average number of shares outstanding during the respective periods.

Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in December 1968 whereby two additional shares were issued for each share held prior to the split.

tradenames	products	applications	plants and sales offices
ALPHAPRENE	Acrylic Emulsions	Abrasives	Weston, Ontario (Head Office) Ste. Therese de Blainville Quebec Lindsay, Ontario North Bay, Ontario Kamloops, British Columbia Port Moody, British Columbia
BECKACITE	Accelerators	Adhesives	
BECKAMINE	Air Filtration	Agricultural	
BECKOLIN	Products	Products	
BECKOPOL	Hard Resins	Appliances	
BECKOSOL	Alkyd Resins	Automotive	
BETAPRENE	Alkyd Emulsions	Boats	
CANADAINK	Catalysts	Building Panels	
coRCIment	Core Oils	Chewing Gum	
CO-RELEES	Epoxy Resins and	Closures	
DEECY	Hardeners	Electrical Devices	subsidary
DELTAPRENE	Esters	Fiberglass Molding	
DIARON	Formaldehyde	Filament Winding	
EPOTUF	Glass Fiber	Floor Polishes	
FORAMINE	Reinforcement	Floor Tiles	
FORASITE	Hydrocarbon	Floor Waxes	
FORMOX	Resins	Flotation	
FOUNDREZ	Melamine Resins	Foundries	
GAMMAPRENE	o-Benzyl-p-	Furniture	
HYDROGUM	Chlorophenol	Highway	The Canada Printing Ink Company Limited Etobicoke, Ontario Montreal, Quebec Edmonton, Alberta Moncton, New Brunswick Ottawa, Ontario Vancouver, British Columbia Winnipeg, Manitoba
JEL-O-MER	o-Phenylphenol	Maintenance	
LUSTRASOL	Organic Peroxides	Home	
MODIGLASS	Phenolic Resins	Construction	
PENTACITE	Polyester Resins	Industrial	
PEROXIDOL	Plasticizers	Construction	
PLYAMINE	Polystyrene	Insulation	
PLYAMUL	Emulsions	Leather	
PLYOCITE	Polyterpene Resins	Packaging	
PLYOPHEN	Polyurethane Resins	Paint	Registrar and Transfer Agent, Common Stock: National Trust Co. Ltd., Toronto, Montreal, Vancouver, Calgary, Winnipeg
POLYLITE	Polyvinyl Acetate	Particle Board	
POLY-AUTOPLATE	Emulsions	Paper Manufacture	
STAFLEX	Resorcinol-Formal-	Plastic Moldings	
STYRESOL	dehyde Resins	Plywood	
SUPER ASTROLOY	Thermosetting	Polymer Production	
SUPER-BECKACITE	Molding	Potting Compounds	
SUPER-BECKAMINE	Compounds	Protective Coatings	
SUPER-BECKOSOL	Urea Resins	Printing Inks	
SYNTHE-COPAL	Urea-Formaldehyde	Refrigeration	Auditors: Peat, Marwick, Mitchell & Co., 4 King St. W., Toronto
SYNTHEMUL	Adhesives	Rubber Products	
TRU-DOT	Urethane Foam	Textiles	
UROTUF	Resins	Treated Fibre	
VARCUM	Vinyl Stabilizers	Products	
WALLKYD		Utensils	
WALLPOL		Varnishes	
WATEREZ		Vinyl Products	
WETstrez			

directors

Robert J. Adams
Vice-President, Eastern
Division, Reichhold Chemicals
(Canada) Limited

Charles B. Breedlove
Vice-President, Midwest
Division, Reichhold Chemicals
Incorporated

Peter J. Fass
Vice-President, Purchasing,
Reichhold Chemicals
Incorporated

George L. Hagen
President and Chief Executive
Officer, Reichhold Chemicals
(Canada) Limited

Herbert R. Helbig
Vice-President, International
Division, Reichhold Chemicals
Incorporated

Donald G. McNabb
Executive Vice-President,
Reichhold Chemicals
(Canada) Limited

Henry H. Reichhold
Chairman of the Board and
Chief Executive Officer
Reichhold Chemicals
Incorporated

Brian W. Shields
Member, Law firm of Tory, Tory,
Deslauriers & Binnington

W. Arthur Weismann
Vice-President, Sales, National
Accounts, Reichhold Chemicals
Incorporated;
Vice-President, Sales Promotion,
Reichhold Chemicals (Canada)
Limited

officers

H. H. Reichhold
Chairman of the Board

G. L. Hagen
President and
Chief Executive Officer

D. G. McNabb
Executive Vice-President

W. A. Weismann
Vice-President, Sales Promotion

R. J. Adams
Vice-President, Eastern Division

L. Roy
Vice-President, Sales,
Eastern Division

B. W. Shields
Secretary

B. Gallagher
Treasurer



New Reichhold Van

The van recently replaced a smaller unit transporting raw materials and finished goods between the Weston and Ste. Therese plants.

This modern unit offers us the following advantages:

1. A 15% increase in gross shipping capacity.
2. The safer transportation of water based and flammable products through an explosion proof heating system in the trailer.
3. A considerable reduction in loading and unloading times as the wider trailer allows the utilization of fully palletized shipping.

In addition to this new van Reichhold operates several leased tank trucks to implement its policy of providing a high standard of customer service and at the same time minimize its freight costs.

